ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

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Related Bills: See Legislative History | Telephone: 845-3036 | Introduced Date: 12/07/98

Attorney: Doug Bramhall | Sponsor:

SUBJECT: Low-Income Housing Credit/Extend Effective Date And Increase Maximum Aggregate Amount To $50,000,000 Annually

SUMMARY

This bill would:

- provide that the chapter authorizing the Tax Credit Allocation Committee (the Committee) to allocate the credit for the costs of constructing or rehabilitating low-income housing shall be in effect so long as the federal low-income housing credit is in effect; and
- permanently increase the maximum aggregate housing credit dollar amount that may be allocated annually by the Committee from $35 million to $50 million beginning in the year 2000 and thereafter, so long as the federal low-income housing credit is in effect.

This analysis does not address the bill's provision regarding the Insurance Tax Law, as it does not impact the department's programs and operations.

EFFECTIVE DATE

As a tax levy, this bill would become effective upon enactment and apply to taxable and income years beginning on or after January 1, 1999.

LEGISLATIVE HISTORY

AB 168 (Stats. 1998, Ch. 9), AB 1438 (Stats. 1993, Ch. 1222); AB 53 (Stats. 1987, Ch. 1138)

SPECIFIC FINDINGS

Existing federal law allows a credit for the costs of constructing or rehabilitating low-income housing. The credit amount varies depending on several factors, including when the housing was placed in service and whether it was federally subsidized. The credit is claimed over ten years. The credit must be allocated by a state authority created to oversee the process.

Existing state law conforms to federal law except that the state credit is claimed over four years, is limited to projects located in California, and the allocable credit amount varies. For years prior to 1998 and after 1999, the Committee is authorized to allocate a maximum of $35 million per year, plus the unused or returned credit amounts from prior or current years.

Board Position:			Department Director	Date
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AB 168 (Stats. 1998, Ch. 9) increased, for 1998 and 1999 only, the maximum allocation amount to $50 million per year. Listings of qualified taxpayers are provided by the Committee to the Franchise Tax Board.

This credit may reduce the regular tax below the tentative minimum tax for purposes of the alternative minimum tax calculation. If the credit exceeds the tax, the excess may be carried over.

This bill would delete the sunset provision that provides for the expiration of the chapter authorizing the Committee to allocate the credit and would extend the Committee's authorization for as long as the federal low income housing credit remains in effect. This bill also would increase the dollar amount that could be annually allocated by the Committee for the low-income housing credit from $35 million to $50 million, plus the unused or returned credit amounts.

Implementation Considerations

Implementation of this bill would not significantly impact the department’s programs and operations.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department’s costs.

Tax Revenue Estimate

The revenue losses under the Banks and Corporation Tax Law (B&CTL) and Personal Income Tax (PITL) laws are estimated to be as follows:

Estimated Revenue Impact of AB 97 Assumed Enactment After 6/30/99 (In Millions)					
2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
-	($2)	($10)	($25)	($40)	($50)

It is anticipated that approximately 70% of the revenue loss would be attributable to B&CT with the balance to PIT. Additionally, this estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this proposal.

Tax Revenue Discussion

The revenue impact of this bill would depend upon the amount of credit allocations for low-income housing by the Committee and additional credits used in subsequent years upon completion of projects.

The revenue estimate reflects applied credits in the respective years and was determined in several steps. First, the dollar amount of approved credits was obtained from the Committee. According to the Committee, in 1998, approved credits amounted to $50 million. Assumptions were made that if the annual dollar amount ($50 million) that may be allocated were extended for the calendar year 2000 and each calendar year thereafter, all of the credit allocation ($50 million) for low-income housing would be allocated. Second, it was assumed that if the authority for the Committee was allowed to expire on December 31, 1999, the mechanism to allocate credits would not be available: therefore, no credits would be allocated under current law after January 1, 2000. Third, the amount of credit applied against available tax liabilities was based on information from the Committee and actual tax return data for reported low-income housing credits. According to the Committee, the majority of the low-income housing credits are normally allocated in advance of project completion and would most likely not be claimed for tax purposes until the second and third year after the credit is allocated by the Committee.

BOARD POSITION

Pending.